

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GALLATIN COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Gallatin County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$28,855 from the prior year, resulting in excess fees of \$37,071 as of December 31, 2009. Revenues decreased by \$126,530 from the prior year and expenditures decreased by \$97,675.

Report Comment:

- The Clerk's Office Lacks Segregation Of Duties Over Disbursements

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2010 on our consideration of the Gallatin County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Clerk's Office Lacks Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Gallatin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 2, 2010

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	3,318
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Libraries and Archives Grant		16,449
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Revenue Supplement		57,376
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Fiscal Court		13,304
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	284,383
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Usage Tax		419,741
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Tangible Personal Property Tax		608,210
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Other-

Fish and Game Licenses		6,900
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Marriage Licenses		2,414
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Deed Transfer Tax		14,691
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Delinquent Tax	107,510	1,443,849
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		5,174
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Real Estate Mortgages		13,104
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Chattel Mortgages and Financing Statements		16,784
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Powers of Attorney		684
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Affordable Housing Trust		11,574
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All Other Recordings		12,177
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Charges for Other Services-

Candidate Filing Fees		860
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Miscellaneous		4,946
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Copywork	3,315	68,618
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Interest Earned		235
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Total Revenues		1,603,149
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The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 206,698

Usage Tax 404,886

Tangible Personal Property Tax 215,969

Licenses, Taxes, and Fees-

Fish and Game Licenses 6,746

Delinquent Tax 10,133

Legal Process Tax 6,934

Affordable Housing Trust 11,574

Miscellaneous 2,402 \$ 865,342

Payments to Fiscal Court:

Tangible Personal Property Tax 65,573

Delinquent Tax 12,298

Deed Transfer Tax 13,956 91,827

Payments to Other Districts:

Tangible Personal Property Tax 297,324

Delinquent Tax 59,482 356,806

Payments to Sheriff 566

Payments to County Attorney 15,589

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 89,359

Overtime 358

Employee Benefits-

Employer's Share Social Security 11,997

Contracted Services-

Advertising 174

Materials and Supplies-

Office Supplies 4,466

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued):

Operating Expenditures and Capital Outlay (Continued):

Other Charges-

Conventions and Travel	\$	3,391
Dues		540
Postage		3,976
Tax Bill Preparation		1,039
Refunds		5,554
Candidate Filing Fees		675
Telephone		2,609
Libraries and Archives Expenditures		16,449

Capital Outlay-

Office Equipment		2,891
Leases		16,546
	\$	160,024

Total Expenditures		\$	1,490,154
Net Revenues			112,995
Less: Statutory Maximum			68,796
Excess Fees			44,199
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,528	7,128
Excess Fees Due County for 2009			37,071
Payment to Fiscal Court - March 24, 2009		10,000	
Payment to Fiscal Court - February 15, 2010		27,071	37,071
Balance Due Fiscal Court at Completion of Audit		\$	0

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Gallatin County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits (Continued):

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Gallatin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The Gallatin County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,449 in 2008. Funds totaling \$16,449 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2009.

Note 5. Leases

The Office of the County Clerk was committed to a lease agreement with Software Management for computer software and hardware. The agreement requires a monthly payment of \$700 for 26 months to be completed on August 11, 2011. The total balance of the agreement was \$4,100 as of December 31, 2009.

The Office of the County Clerk was committed to a lease agreement with Modern Office Methods for a copier. The agreement requires a monthly payment of \$261 for 60 months to be completed on September 1, 2014. The total balance of the agreement was \$14,275 as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Gallatin County Clerk for the year ended December 31, 2009, and have issued our report thereon dated June 2, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Clerk's Office Lacks Segregation Of Duties Over Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Gallatin County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Gallatin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 2, 2010

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCY:

2009-1: The Clerk's Office Lacks Segregation Of Duties Over Disbursements

During the audit, we noted that the Clerk's office lacks segregation of duties over disbursements, which is a prior year exit and audit report comment. We found that some recommendations made in the prior year audit were done by the Clerk for part of 2009; however, by the end of the year, the Clerk was performing all disbursement functions and completing the bank reconciliations resulting in a lack of segregation of duties. Good internal controls dictate a need for segregation of duties to lessen the risk of misappropriation of funds and of errors in financial reporting. We recommend the Clerk assign some disbursement functions to a deputy, or implement compensating controls. For example, the Clerk can sign checks, review invoices, and review bank reconciliations performed by a deputy who does not work on the bank deposit, or the Clerk can perform the bank reconciliations, review invoices, and have a deputy sign checks.

County Clerk's Response: With a small office with limited staff, it's hard to completely segregate duties. I will try to put more functions into place to satisfy this requirement.

